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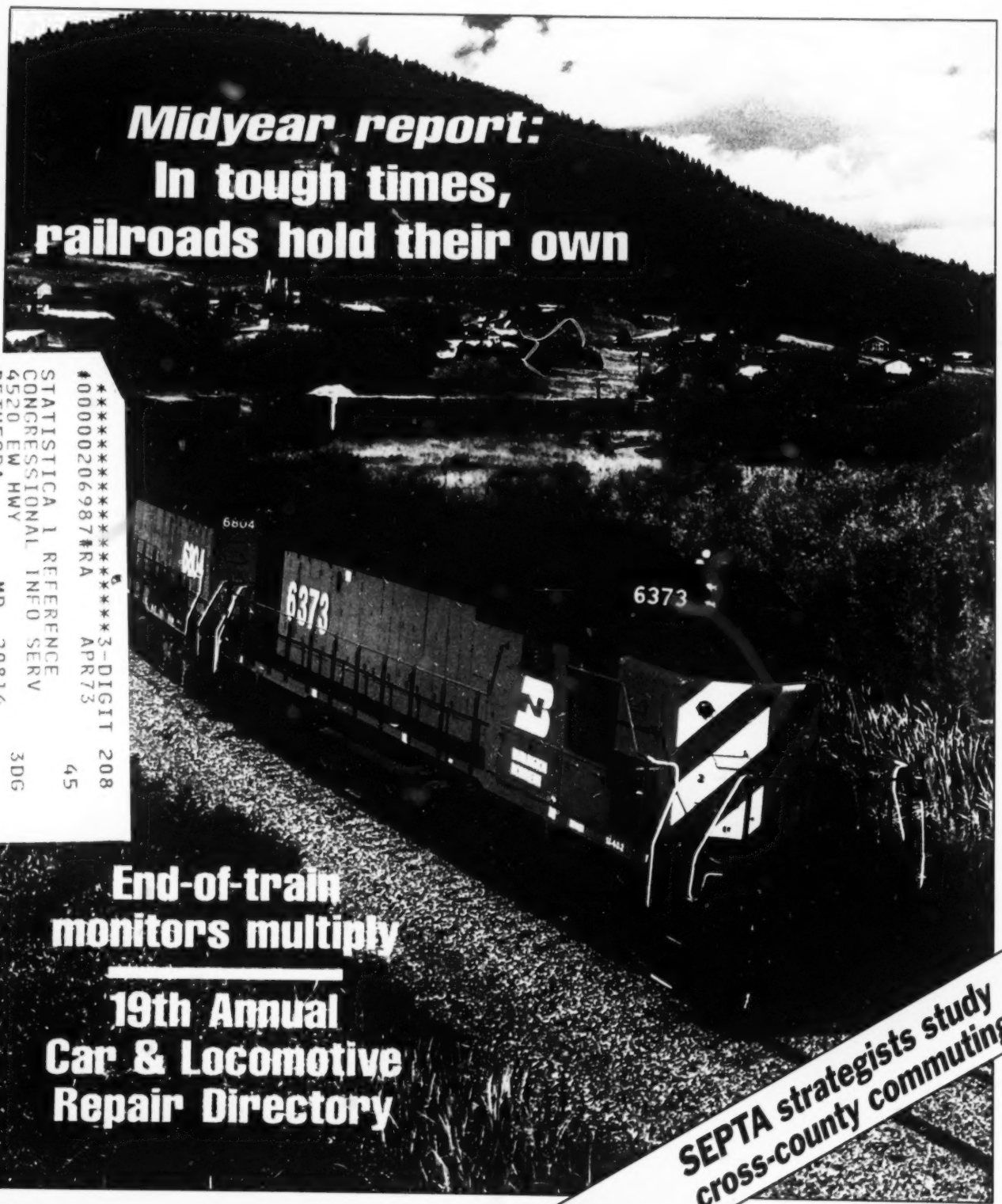
July 1990

Railway Age

...for the new age of railways and rail transit



Midyear report: In tough times, railroads hold their own

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End-of-train monitors multiply

19th Annual Car & Locomotive Repair Directory

SEPTA strategists study cross-county commuting

July 1990

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32 1990 Car & Locomotive Repair Directory
Railway Age's 19th annual directory is a cross-indexed guide to repair facilities in the U.S. and Canada, listing services offered by each.

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While the national economy struggles to avoid recession, railroads are doing surprisingly well. But cost-control and competitive problems cloud the future.

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Facilities

Southern California Rapid Transit District: Awarded a $32 million contract to Morrison Knudsen to perform finishing work on two Los Angeles subway stations. MK will install granite, stainless steel and porcelain-enamel wall and ceiling panels in the underground stations, as well as mechanical and electrical systems.

London Regional Transport: Awarded a $50 million (Canadian) contract to Alcatel Canada's SEL Division to resignal the fully automatic Docklands Railway using SELTRAC technology, which is now in use in Vancouver, Toronto, and Detroit. The transmission based moving block signaling system will allow a substantial increase in capacity and on-line management of a junction merging four branches of the railway. Headways of two minutes or less will be provided on the most heavily traveled sections of the line.

Metropolitan Transportation District of Oregon: Received a $2.5 million grant from the Urban Mass Transportation Administration to help pay for a light rail station at the new Oregon Convention Center in Portland.

Chicago Transit Authority: Will seek bids in July and August for capital projects costing an estimated $90 million. De Leuw, Cather & Co. is performing general engineering consulting services for these projects. Included are: installing cwr, contact rail, some new ties, and special trackwork on 9.2 miles in the State Street Subway; replacing 7.2 track miles of timber walkway with fiberglass/timber on the elevated track structure of the North Main and Ravenswood lines; installing 14.5 miles of cwr, replacing contact rail, renewing ties and ballast, and installing special trackwork on the Skokie, Ravenswood and Douglas lines; and reconstituting some 780 column foundations on elevated structures on the Lake Street and South Main lines.

GO Transit: Has entered into an arrangement with Canadian National for a three-year, $50 million (Canadian) project to extend GO's commuter train service between Oakville and Burlington, Ont. The project includes construction of a new stretch of main line.

Equipment

Canadian National: Will rebuild and upgrade 45 diesel-electric units at its Pointe St. Charles Shops at a cost of $37 million (Canadian). CN will also invest $17 million in the acquisition of 170 fully enclosed automobile transporters, with platforms supplied by Lavalin and enclosed racks fitted by Thrall. Other projects approved by CN directors at a June 12 board meeting: $1.4 million to extend a freight car maintenance, administration and billing computer system to facilities in Moncton, Montreal, Hamilton, and Sarnia; and $750,000 for a voice radio system that will permit employees in the field to report directly to the St. Lawrence Customer Service Centre.

Revenue freight carloadings

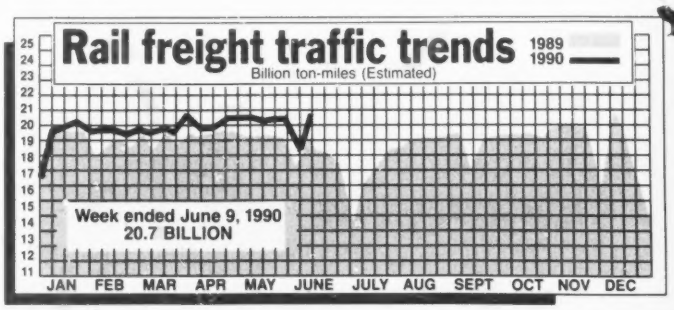
Commodity	June 9 week	June 2 week	May 26 week	May 19 week	May 12 week
Grain	27,590	22,161	27,127	26,798	25,518
Other farm products	2,105	1,916	1,862	1,888	1,573
Metallic ores	19,369	20,120	19,868	21,062	19,717
Coal	135,140	121,423	130,041	130,012	130,950
Crushed stone, gravel and sand	18,168	15,551	17,321	17,213	17,644
Nonmetallic minerals	9,820	10,050	11,292	10,306	10,699
Grain mill products	9,894	9,456	10,282	9,783	9,625
Food and kindred products	8,524	7,625	8,778	8,667	8,499
Primary forest products	10,041	8,650	9,697	9,590	9,571
Lumber and wood products	6,330	6,127	6,685	6,748	6,500
Pulp, paper and allied products	10,602	10,952	10,755	10,953	9,890
Chemicals and allied products	27,894	25,550	27,896	27,662	28,640
Petroleum products	5,111	4,480	5,222	5,154	5,213
Stone, clay and glass products	10,566	8,830	10,368	10,763	10,249
Coke	5,968	5,391	5,699	6,016	5,980
Metals and products	9,618	10,666	9,997	10,141	9,639
Motor vehicles and equipment	20,750	17,166	20,127	20,944	20,894
Waste and scrap materials	9,021	7,667	9,135	9,059	9,315
All other carloads	6,805	6,035	6,725	7,063	6,179
Total Cars Loaded	**353,316**	**319,816**	**348,877**	**349,822**	**346,295**
% change from previous year	1.6	.1	0	(.3)	0
Estimated revenue ton-miles (billions)	20.7	18.7	20.4	20.3	20.1
% change from previous year (subject to revision)	4.5	3.3	2.5	1.5	1.0

Total:	**1990**	**1989**	**% change**
23 weeks	7,812,827	7,793,812	.2

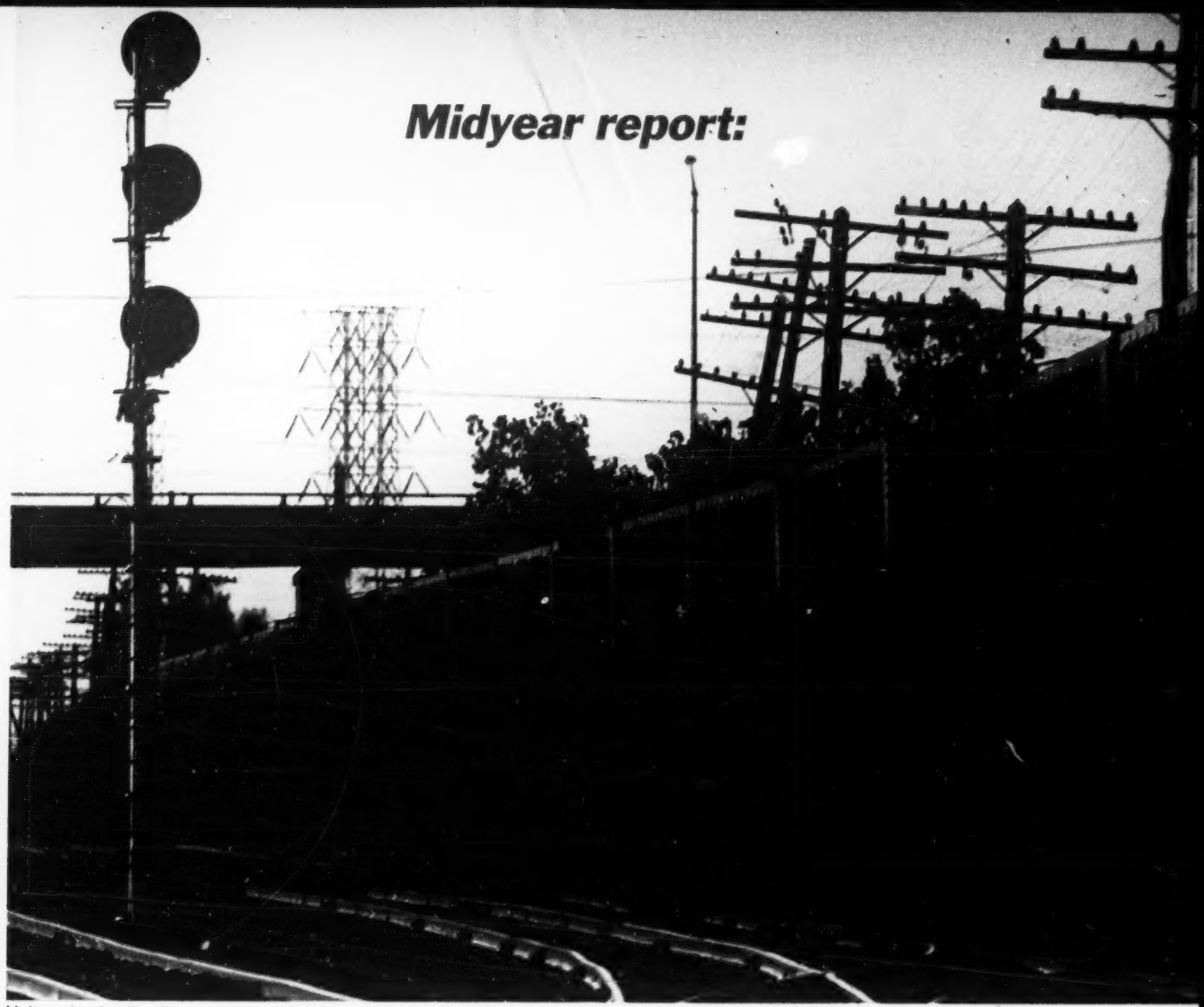
Intermodal traffic

	June 9	June 2	May 26	May 19	May 12
Trailers	66,359	50,627	67,343	65,755	64,900
Containers	53,168	50,659	51,307	50,345	53,658
Total	**119,527**	**101,286**	**118,650**	**116,100**	**118,558**
% change from previous year	6.2	1.1	5.3	.7	5.2

Cumulative total: 23 weeks	2,671,062	**% change** 3.4



Source: Association of American Railroads



Midyear report:

Unit coal trains like this one were mainly responsible for the 4.5% increase in revenue ton-miles in this year's first quarter. Photo: Larry Smith Prototype Pix

Railroads hold their own

In a slow-to-no growth economy, both ton-miles and earnings are up. But the industry continues to grapple with problems internal and external that leave no room for complacency.

By LUTHER S. MILLER,
Editor

Asked recently how he would characterize the railroad industry's first-half 1990 performance, economist Peter Toja replied: "Six months ago I would have said we viewed the immediate future with extreme caution. Today I'd say we're looking ahead with guarded optimism."

That's another way of saying that while 1990 may not turn out to be the best of times for railroads, it certainly won't be the worst.

Six months ago there was good reason for caution—even pessimism. A flat year for traffic was in prospect. Capital spending budgets were down. The freight-car market was softening. What optimism you could find was confined to expressions of hope that the downturn would be short-lived.

But the first half turned out to be a little better than expected. And barring the unexpected, more encouraging news may be in store for the rest of the year.

Traffic has been up beyond expectations—in ton-miles, if not in carloadings. Another record traffic year is in prospect, with ton-miles expected to exceed one trillion for the third year in a row. The freight-car market, a traditional barometer for industry forecasters, is beginning to warm up after a cooling off earlier this year.

This was the picture at midyear:

Traffic.—Revised figures made public June 21 by the Association of American Railroads put first-quarter ton-miles at 260 million, up 4.5% from the 249 million recorded for first-quarter 1989. This was a sharp upward revision of earlier estimates which had put the ton-mile increase at less than 2%. What happened was this: While

carloadings as a whole were nearly flat, as predicted, there was an increase in coal loadings; coal is a heavy commodity which tends to move long distances; and since ton-miles are based on weight and distance, traffic by that measure was up more than originally estimated. That was the up-side of the traffic picture. The down-side was a decline in some higher-rated commodities which produce fewer ton-miles but earn higher revenues.

Earnings.—Class I roads reported net railway operating income of $596 million in the first quarter, up 31% from last year's $454 million. This gave the railroads a rate of return on investment of 5.97% for the 12 months ending March 31, 1990, compared with a return of 5.15% for the year-earlier period.

Some caveats are in order: These figures exclude a one-time charge of $342 million taken by the Santa Fe for an out-of-court settlement of a law suit involving alleged antitrust violations in connection with the Energy Transportation Systems' proposed coal-slurry pipeline.

It must be borne in mind, too, that this year's income figures look better than last year's partly because last year's figures reflected a number of write-offs in connection with employee reduction programs.

But even when all of these things are taken into consideration, this year's financial performance still looks strong in comparison with last year's.

First-quarter operating revenues totaled $7.1 billion, up 1.8% from the 1989 quarter despite the fact that revenue per ton-mile dropped about 3%. Operating expenses were $6.226 billion, virtually unchanged from last year's $6.231 billion—a reflection, said AAR President William H. Dempsey, of "the ability of railroads to control expenses in a period of traffic growth and the pressures of inflation." Revenue per ton-mile declined from 2.71 cents in the 1989 quarter to 2.64 cents this year.

A final report on first-half traffic and earnings won't be available for several more weeks, when all second-quarter figures are in. But as of last month, first-quarter traffic trends appeared to have carried over into the second quarter.

During the week ended June 9, for example, total carloadings were up 1.6% from the corresponding 1989 week but ton-miles were 4.5% on the plus side (an estimate subject to revision, probably upward, when final reports are in). Coal loadings that week were up 3.9% from the corresponding week a year earlier; and chemical loadings were up 7.6%. Other commodity groups showing gains from the same week last year were grain, up 1.3%; other farm products, +1.3%; crushed stone, gravel and sand, +6.4%; pulp, paper and allied products, +1.0%; coke, +13.2%; metals and products, 3.2%; motor vehicles and equipment, +2.9% (an increase reflecting last year's trough); and waste and scrap, +1.5%. Down from last year were carloadings of metallic ores, −10.2%; non-metallic ores, −7.1%; grain mill products, −1.9%; primary forest products, −3.2%; lumber and wood products, −10.1%; and stone, clay and glass products, −2.8%.

Intermodal traffic in the week ended June 9 added up to 119,527 trailers and containers, an increase of 6.2% from the corresponding week last year. The gradual switch of traffic to containers was reflected in the fact that container loads rose by 14.9% to 53,168 while trailer loads rose only 0.2% to 66,359.

Railroad traffic: A five-year forecast
(Thousands)

	1989	1990	1991	1992	1993	1994
Commodity carloadings	17,260	17,224	17,725	18,313	18,926	19,458
Trailers & containers	5,949	5,950	6,140	6,425	6,725	7,000

Source: ECAP

Economic Consulting and Planning, Inc. (ECAP) is forecasting traffic increases in the neighborhood of 3% a year, a growth rate that could trigger increased freight car and locomotive orders.

Freight cars.—Late in 1989, the carbuilders were looking to deliveries of about 30,000 cars in 1990. At about that time demand began to soften, and some forecasts were revised as low as 25,000 cars. Now, says Peter Toja, executive vice president of Economic Consulting and Planning, Inc., "things seem to be picking up again." Toja says carbuilders have recently been experiencing a marked increase in inquiries following a lull that saw orders decline for much of the first half of this year. He foresees production of 28,000 to 29,000 new cars this year, very close to earlier forecasts. He says present backlogs will carry most builders through most or all of this year, and an expected pickup of orders in the second half should give builders a good year-end backlog.

• **Builders optimistic.** Comments from individual carbuilders are generally in line with Toja's forecast. William G. Brader, president of Bethlehem Steel's Freight Car Division, foresees orders remaining "fairly healthy well into the fall for both the new car construction and railroad car repair and rebuilding businesses." William A. Furman, president of The Greenbrier Companies, says Gunderson's present backlog of orders will keep its lines busy through the rest of this year. He has seen some softening of the market but foresees a strong demand for intermodal cars over the long term with containers continuing to gain market share from trailers.

In this year's first quarter, 9,200 new and rebuilt cars were placed in service, compared with 7,286 during the corresponding 1989 period. But new car orders dropped—from 11,040 in last year's first quarter to 5,864 this year. The April 1 backlog of cars on order but undelivered was 13,537, down from 19,707 a year earlier.

Locomotive production this year has declined. The AAR says 116 new and rebuilt locomotives were delivered in the first quarter, compared with 157 in the same quarter last year. The 70 locomotives backlogged on April 1 represented less than half of the year-earlier backlog of 148.

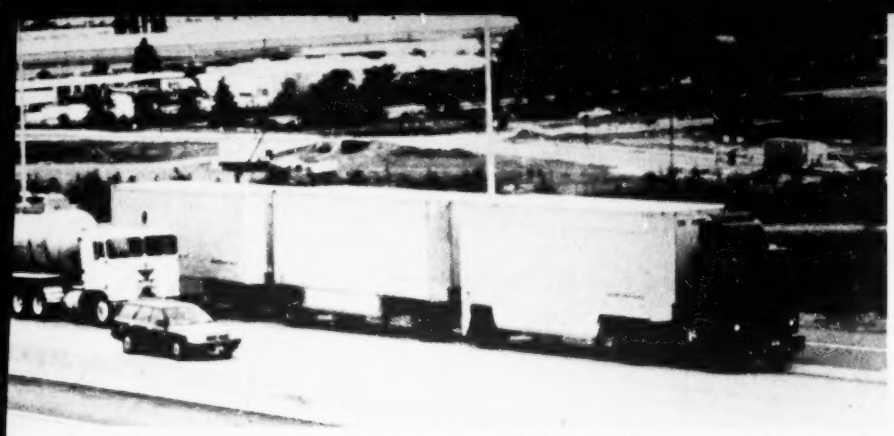
Despite blips like these, the long-term outlook for new rolling stock is for steady, year-to-year increases.

Car orders will never again reach the 80,000-a-year levels of a decade ago. One reason is that freight cars today are working far harder than they did a few years ago. In 1989, for example, the average freight car made 19.8 trips, compared with 15.8 trips in 1980—a 20% improvement.

But Richard E. Briggs, executive vice president of the AAR, notes that "we have finally worked the surplus off, and if we can get some growth equipment orders will go up. I suspect that as we get back to 3-4% growth, we'll see freight car production rising to 45,000-to-50,000, and locomotive production in excess of 1,000."

Clark Wood, vice president and director of railcar sales for Trinity Industries, agrees that a return to a 45,000-car year is possible "if we see the economy get back to a 3%-plus increase each year."

Wood and others point out that one big unresolved question with respect to grain cars is, who is going to buy them? Purchase of these cars by shippers was discouraged



This triple 28-foot combination was photographed in Oregon, one of 13 states where such combos are now permitted. They could go nationwide, along with twin-48s, if truckers have their way.

Photo: Bruce Harmon

by an ICC ruling that railroads are required to use shipper-owned cars only as a last resort.

"That has got to hurt, and it could drive some shippers to a different form of transportation," says the head of one equipment financing company. One story making the rounds last month was to the effect that a grain shipper, rather than purchase railcars that might lie idle much of the time, has instead opted to purchase a small fleet of barges.

• **The next ten years.** The AAR's Dick Briggs, who played a key role in the events that led up to the passage of the Staggers Rail Act of 1980, recently reflected on the changes that the Staggers Act had triggered during the '80s; and he speculated on what the '90s might hold for the railroads.

"The railroads adapted fast after Staggers," recalled Briggs. "We saw productivity gains, improvements in service, tailoring of service to customer demands—in all, a massive restructuring, breathing life into a moribund system.

"We are not going to be able to replicate, in the '90s, the kind of gains that we made in the '80s.

"Meanwhile, we're going to see modestly lower rates in the growth of the economy than we saw in the last ten years."

With slow-to-no growth in the economy, how can railroads increase their traffic?

Says Briggs: "One way is to raise rates. On the plus side, we are not going to see the downward pressure on rates that we saw in the '80s. That's not to say there will be lots of opportunity to raise rates. But we're not going to see the kind of pressure that literally drove rates down in real terms 33% in the '80s. That's in part because the trucking industry is reaching diminishing returns like we are, and in part because they're down to a margin where they cannot cut much more before going out of business.

"Another way is to reduce the number of physical units you employ to produce service. We still have some opportunities out there but we're not going to see the kind of astounding productivity increases we saw in the '80s.

"Still another way is reducing unit prices. Our biggest cost is still labor. It has shrunk but it's still four times bigger than anything else. That's going to be the key to increasing profit margins—how well we do in driving down unit prices, partly through new union agreements and perhaps changes in our health and welfare systems. Labor costs now represent about 41% of expenses."

• **Legislative issues.** The railroads don't expect to solve all of their labor issues at the bargaining table. Two of the thorniest may have to be decided in Congress.

On involves the Federal Employers' Liability Act (FELA), which is costing the railroads an estimated $1 billion a year. The AAR says that adds 70 cents to the price of each ton of freight that moves by rail.

Another is the long-term solvency of the Railroad Retirement System, which is now before a Congressional commission. A report is due later this year on the current and projected financial condition of the system. Railroads have taken no official position on proposed replacement of Railroad Retirement with Social Security. But they're urging reform of the system, particularly its early retirement and occupational disability provisions, which they claim represent a burden on the industry and its shippers of more than $500 million a year.

• **The big-truck threat.** Of more immediate concern to the railroads is the growing possibility that their highway competition may soon take the form of twin-48 foot or triple 28-foot trailer rigs. If motor carriers are confronted with the prospect of higher user charges when the highway reauthoriziation bill comes up next year, they're expected to demand a quid pro quo in the form of longer and heavier trucks. The trucking lobby is working at the state level to achieve the same goal; many states have "grandfather" rights to increase lengths and weights without federal approval.

"If such monster truck-trains become the national standard," says the AAR's Briggs, "railroads will find themselves shut out from serving just about every growth element in the economy, and the nation can forget about railroads providing much help in solving the country's environmental and energy problems." Briggs adds that while motor carriers claim that bigger, heavier trucks will increase their productivity up to 37%, "these gains will be eviscerated by the societal costs of increased highway congestion, highway maintenance, energy consumption, pollution, and public safety."

Just what will happen to railroads if these "truck-trains" are permitted on the highways?

"The biggest initial damage," says Briggs, "is that it pares your profit margins. If someone else's costs go down relative to yours, the first thing you do is reduce your rates, until you get to the point where you don't make any money. So the most pernicious damage goes right to the bottom line.

"We asked a computer model what would happen if the whole country was open to twin-48s and triple-28s, and the answer was that we would lose 9% of our traffic. While that sounds bad, it's not enough to cause you to jump out of the window—until you also realize that you've lost 52% of your pre-tax profits. And that could be the end of the ball game."

It's not an eventuality that Briggs really expects to come about without a fight. He believes Americans have too great a sense of self-preservation to consent to sharing their highways with the monster truck rigs: "People don't like to drive with those suckers. They wouldn't want to drive on railroad tracks alongside trains. People are scared of big trucks.

"The argument about whether society is better off depends not only on the relative safety of big vs. smaller trucks but also how much traffic goes off the railroads and how many people will be killed because of it. It's quite clear that if you move traffic from rail to truck, more people get killed, no matter how good the drivers are. It's also clear that you're going to use a lot more fuel, and you'll have a lot more pollution, and you're going to add congestion."

So the future of railroading, short- and long-term, depends not only on how well the railroads do their job, but also on how well the nation's lawmakers and transportation planners do theirs.

The smart forecaster today would seem to be one who keeps one eye on carloadings—and another on Congress. ■